

## SPEC BUY

Current Price \$0.029  
Target Price \$0.060

Ticker:	<b>HCH</b>	
Sector:	<b>Materials</b>	
Current Shares on Issue (m):	<b>2,332.7</b>	
Market Cap (\$m):	<b>67.6</b>	
Net Cash est (\$m):	<b>8.0</b>	
Enterprise Value (\$m):	<b>59.6</b>	

52 wk High/Low:	<b>\$0.046</b>	<b>\$0.010</b>
12m Av Daily Vol (m):	<b>6.9</b>	

<b>Directors</b>			
Murray Black	Non-Executive Chairman		
Christian Easterday	Managing Director		
Allan Trench	Non-Executive Director		
Michael Anderson	Non-Executive Director		
Roberto de Andraca Adriasola	Non-Executive Director		
George Nickson	Non-Executive Director		

<b>Major Shareholders</b>			
Taurus Funds Management			15%
Exploration Capital & Sprout			13%
Black Edward			5%
CAP SA			5%

<b>Reserves (Probable)</b>			
	<b>Mt</b>	<b>% Cu</b>	<b>Mt</b>
Productora	166.9	0.43	562.9

<b>Resources (Ind and Inf)</b>			
	<b>Mt</b>	<b>% Cu</b>	<b>Cu cont. Mt</b>
Productora (higher-grade)	236.6	0.48	1.13
Productora (lower-grade)	218.0	0.16	0.34

<b>Cash Flow (A\$m)</b>			
	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Operating CF	-3.0	-2.2	-2.2
Investing CF	-1.4	-1.6	-3.2
Financing CF	6.4	5.1	3.1
Closing Cash	2.4	3.7	1.4

Figures in A\$ unless otherwise stated

Share Price Graph and Trading Volume (msh)



Please refer to important disclosures at end of the report (from page 3)

Monday, 13 July 2020

## Hot Chili Ltd

### Expanding Cuerpo 3's high-grade core

Analysts: Matthew Keane | Michael Eidne

#### Quick Read

HCH has provided an update for ongoing drilling at the Cortadera Cu-Au porphyry project in Chile. Visual results were released for the first two diamond holes of the current drill program into the Cuerpo 3 zone. Diamond hole CRP0042D intercepted 330m of mineralised porphyry to end of hole at 945m and diamond tail CRP0016D intercepted a 220m zone of strongly mineralised porphyry. HCH is aiming to extend the high-grade core of Cuerpo 3 which Argonaut currently estimates at ~100Mt at ~1.0% Cu equivalent (Eq.). Argonaut maintains a SPEC BUY recommendation with a \$0.06ps target price.

#### Event & Impact: Drilling Update - Positive

**Extending the high-grade core:** HCH release a visual update on ongoing drilling into the Cuerpo 3 zone of the Cortadera Project. The Company is looking to extend the high-grade core which Argonaut estimates at ~100Mt at ~1.0% Cu Eq. At present the core is made up of two flanks (northern and southern) and extends from ~300m to ~1,000m below surface. Voids both between and within the two flanks are largely due to a lack of drilling rather than barren drill-holes. The high-grade core is open up-dip, at depth and at the lateral margins. Hole CRP0016D intercepted 220m of strongly mineralised porphyry and has extended the southern flank up-dip. Hole CRP0042D intercepted 330m of mineralised porphyry and should extend the lateral extents of the system (assays pending). Hole CRP0043D (underway) will test the up-dip extension of high-grade in the northern flank.

**Shallower mineralisation may provide open-pittable ore:** The high-grade core previously started at ~300m below surface. Hole CRP0016D looks to have reduced this to 100-200m below surface. Under a mining scenario, we predict an open pit could extend to 300-350m to capture the top of the high-grade core (prior to, or in conjunction with an underground cave operation). Argonaut has previously used SolGold's (LON: SOLG) Alpala porphyry project as an analogy for Cortadera. Notably, Alpala's high-grade core of 442Mt at 1.4% Cu Eq. is much deeper, starting from ~600m below surface. See previous [research link](#) for further details.

**Next steps:** Following hole CRP0043D, HCH is expected to test for a similar high-grade core in the Cuerpo 2 zone and the potential further mineralisation in the Cuerpo 3 North zone. Two historic scissor holes into Cuerpo 2 clipped higher-grade porphyry mineralisation at the same depth as the Cuerpo 3 high-grade zone. RC pre-collars into Cuerpo 3 North showed positive geochemical vectoring (i.e. increasing molybdenum) over a geophysical IP anomaly.

#### Recommendation

Argonaut maintains a Speculative Buy recommendation with a \$0.06ps target price. Our valuation is based on EV/Resource multiples for existing resources at the Productora Project (A\$25/t contained Cu Eq.) and the estimated inventory at Cortadera (A\$50/t contained Cu Eq.) See previous [research link](#) for further details.

**HCH has intercepted long intercepts of porphyry mineralisation in latest drilling...**

**...and is extending high-grade mineralisation closer to surface**

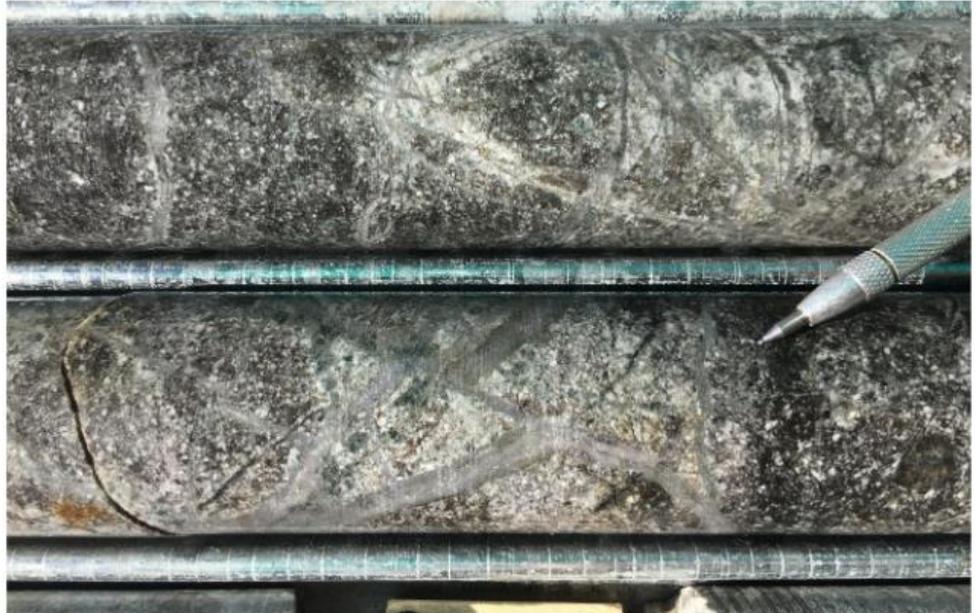
**Visual inspection of recent diamond holes, is analogous to high-grade mineralisation**

## Extending the high-grade core at Cuerpo 3

HCH release a visual update on ongoing drilling into the Cuerpo 3 zone of the Cortadera Project. The Company is looking to extend the high-grade core with Argonaut estimates at ~100Mt at ~1.00% Cu Eq. within a greater lower-grade endowment estimated at ~500Mt at ~0.65% Cu Eq. At present the core is made up of two flanks (northern and southern) and extends from ~300m to ~1,000m below surface. Voids both between and within the two flanks are generally due to a lack of drilling rather than barren drill-holes. The high-grade core is also open up-dip, at depth and at the lateral margins. Hole CRP0016D intercepted 220m of strongly mineralised porphyry and has extended the southern flank up-dip. Hole CRP0042D intercepted 330m of mineralised porphyry and should extend the lateral extents of the system. This hole incurred excessive deviation and was terminated early at 945m.

High-grade mineralisation within the Cortadera porphyry is typified by increasing A and B vein abundance, higher concentrations of chalcopyrite and pyrite, higher molybdenum and biotite-magnetite-chlorite alteration. This is consistent with a Type II porphyry system.

*Figure 1. Photograph of core from hole CRP0016D with strongly mineralised skarn xenoliths within host porphyry with disseminated chalcopyrite and pyrite associated with biotite-magnetite-chlorite alteration and +10% B-vein abundance.*



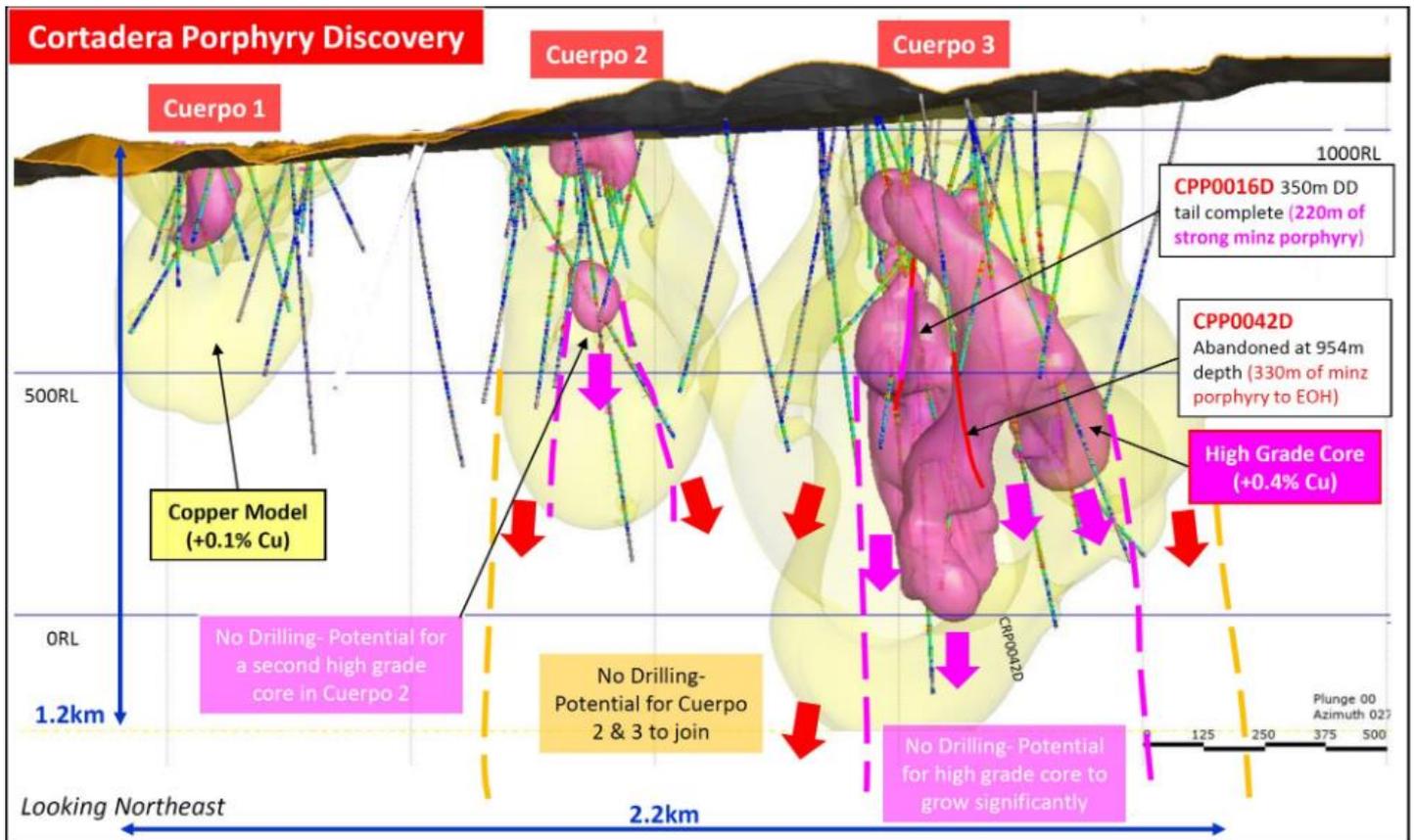
Source: HCH

### Next steps

Hole CRP0043D, which is currently underway, will test the up-dip extensions of high-grade in the northern flank. After this, HCH is expected to test for a similar high-grade core in the Cuerpo 2 zone and the potential further mineralisation in the Cuerpo 3 North zone. Two historic scissor holes into Cuerpo 2 clipped higher-grade porphyry mineralisation at the same depth as the Cuerpo 3 high-grade zone. RC pre-collars into Cuerpo 3 North showed positive geochemical vectoring (i.e. increasing molybdenum) over a geophysical IP anomaly.

A maiden Resource estimate is currently underway, which we expect will show Cortadera’s potential as world class porphyry system. In the medium term, we look forward to drilling at regional targets such as Cortadera North, which has a large coincident geochemical and geophysical anomaly to the north of Cuerpo 3. An access road to this target is partially constructed, which upon completion, should facilitate drilling in H2 2020.

Figure 2. Long section showing the location of recent drill holes and areas of open mineralisation at Cortadera



Source: HCH

**RESEARCH:**

**Ian Christie** | Head of Research  
 +61 8 9224 6872 [ichristie@argonaut.com](mailto:ichristie@argonaut.com)

**Matthew Keane** | Director, Metals & Mining Research  
 +61 8 9224 6869 [mkeane@argonaut.com](mailto:mkeane@argonaut.com)

**Michael Eidne** | Director, Research  
 +61 8 9224 6831 [meidne@argonaut.com](mailto:meidne@argonaut.com)

**INSTITUTIONAL SALES - PERTH:**

**Chris Wippl** | Executive Director, Head of Institutional Sales  
 +61 8 9224 6875 [cwippl@argonaut.com](mailto:cwippl@argonaut.com)

**Damian Rooney** | Director Institutional Sales  
 +61 8 9224 6862 [drooney@argonaut.com](mailto:drooney@argonaut.com)

**John Santul** | Consultant, Sales & Research  
 +61 8 9224 6859 [jsantul@argonaut.com](mailto:jsantul@argonaut.com)

**Josh Welch** | Institutional Dealer  
 +61 8 9224 6868 [jwelch@argonaut.com](mailto:jwelch@argonaut.com)

**George Ogilvie** | Institutional Dealer  
 +61 8 9224 6871 [gogilvie@argonaut.com](mailto:gogilvie@argonaut.com)

**INSTITUTIONAL SALES – HONG KONG:**

**Damian Rooney** | Director Institutional Sales  
 +61 8 9224 6862 [drooney@argonaut.com](mailto:drooney@argonaut.com)

**CORPORATE AND PRIVATE CLIENT SALES:**

**Glen Colgan** | Managing Director, Desk Manager  
 +61 8 9224 6874 [gcolgan@argonaut.com](mailto:gcolgan@argonaut.com)

**Kevin Johnson** | Executive Director, Corporate Stockbroking  
 +61 8 9224 6880 [kjohnson@argonaut.com](mailto:kjohnson@argonaut.com)

**James McGlew** | Executive Director, Corporate Stockbroking  
 +61 8 9224 6866 [jmclew@argonaut.com](mailto:jmclew@argonaut.com)

**Geoff Barnesby-Johnson** | Senior Dealer, Corporate Stockbroking  
 +61 8 9224 6854 [bj@argonaut.com](mailto:bj@argonaut.com)

**Ben Willoughby** | Senior Dealer, Corporate Stockbroking  
 +61 8 9224 6876 [bwiloughby@argonaut.com](mailto:bwiloughby@argonaut.com)

**Philip Grant** | Senior Dealer, Corporate Stockbroking  
 +61 8 9224 6834, [pgrant@argonaut.com](mailto:pgrant@argonaut.com)

**Rob Healy** | Dealer, Private Clients  
 +61 8 9224 6873, [rhealy@argonaut.com](mailto:rhealy@argonaut.com)

**Cameron Prunster** | Dealer, Private Clients  
 +61 8 9224 6853 [cprunster@argonaut.com](mailto:cprunster@argonaut.com)

**James Massey** | Dealer, Private Clients  
 +61 8 9224 6849 [jmassey@argonaut.com](mailto:jmassey@argonaut.com)

**Chris Hill** | Dealer, Private Clients  
 +61 8 9224 6830, [chill@argonaut.com](mailto:chill@argonaut.com)

**Harry Massey** | Dealer, Private Clients  
 +61 8 9224 6829, [hmassey@argonaut.com](mailto:hmassey@argonaut.com)

**Jonas Dorling** | Assoc. Dealer / Prov. Fin. Advisor, Private Clients  
 +61 8 9224 6837, [jdorling@argonaut.com](mailto:jdorling@argonaut.com)

**Important Disclosure**

The Analyst(s) own or control shares in HCH

Argonaut participated in the Placement to raise \$8.9M in May 2020 and received fees commensurate with this service. Argonaut currently owns and/or controls 9,350,000 HCH Shares and 6,549,000 Options exercisable at \$0.025 on or before 20 May 2022.

**Information Disclosure**

Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

**For U.S. persons only**

This research report is a product of Argonaut Securities Pty Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Argonaut Securities Pty Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Argonaut Securities Pty Limited has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

**Hong Kong Distribution Disclosure**

This material is being distributed in Hong Kong by Argonaut Securities (Asia) Limited which is licensed (AXO 052) and regulated by the Hong Kong Securities and Futures Commission. Further information on any of the securities mentioned in this material may be obtained on request, and for this purpose, persons in the Hong Kong office should be contacted at Argonaut Securities (Asia) Limited of Unit 701, 7/F, Henley Building, 5 Queen's Road Central, Hong Kong, telephone (852) 3557 48000.

**General Disclosure and Disclaimer**

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") or by Argonaut Securities (Asia) Limited ("ASAL") for the use of the clients of ASPL, ASAL and other related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services License No. 274099 and is a Market Participant of the Australian Stock Exchange Limited. ASAL has a licence (AXO 052) to Deal and Advise in Securities and Advise on Corporate Finance in Hong Kong with its activities regulated by the Securities and Futures Ordinance ("SFO") administered by the Securities and Futures Commission ("SFC") of Hong Kong.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL and ASAL have made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, ASAL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL and ASAL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's and / or ASAL's overall revenues.

**Copyright**

© 2020. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited and / or Argonaut Securities (Asia) Limited. Argonaut Securities Pty Limited and Argonaut Securities (Asia) Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.